Press Releases

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REPORT: SIX OF TEN DELINQUENT BORROWERS NOT RECEIVING LOAN MODIFICATION ASSISTANCE

State Foreclosure Prevention Working Group Report Shows Foreclosures Outpacing Loan Modifications

Chicago — Attorney General Lisa Madigan today called on mortgage lenders to intensify their efforts to reduce mortgage foreclosures in light of new data showing foreclosures in 2010 will outpace lenders' efforts to keep borrowers in their homes. Madigan is a member of the State Foreclosure Prevention Working Group, which yesterday issued its fourth "Analysis of Subprime Mortgage Servicing Performance," showing that six out of 10 seriously delinquent borrowers are not receiving loan modification assistance.

"Unfortunately, we're seeing that as the foreclosure crisis intensifies, lenders still are not providing effective help to struggling homeowners," Madigan said. "This is unacceptable. We've consistently stressed that lenders must implement a broader, more systematic approach to putting homeowners into affordable loans to stave off the devastating effects of foreclosures in our communities."

The report indicates that the federal Home Affordable Modification Program (HAMP) has led to offers of loan modification assistance to more than 1.1 million homeowners. But, early indications are that the companies that service the loans, which collect and process loan payments during the life of a loan, have been unable to implement the program effectively, and many homeowners with trial modifications are not yet qualified to transition to a permanent loan modification. Seriously delinquent loans increased by 33 percent from October 2008 to October 2009, according to the report's findings. However, only four of 10 seriously delinquent borrowers are currently involved in modifying their loan, and the pace of closed loan modifications is slowing significantly. Since February 2009, the total number of closed loan modifications has fallen by 100,000 loans per month.

"To be sure, we would be in a much worse place without these efforts," the report indicated, but "these efforts must be improved."

The Foreclosure Prevention Working Group began as a cooperative dialogue of state officials and mortgage servicers in September 2007, and is led by the Attorneys General of 11 states (Arizona, California, Colorado, Iowa, Illinois, Massachusetts, Michigan, New York, North Carolina, Ohio and Texas), the state banking departments in New York and North Carolina, and the Conference of State Bank Supervisors. Since October 2007, the Group has collected data from the largest subprime mortgage servicers, with 13 of the largest 20 servicers participating.

In addition to finding that a majority of delinquent borrowers are not receiving loan modification assistance, the report also concluded that:

- **Both loss mitigation and foreclosure efforts appear to be backlogged.** The average time to complete a loan modification for some servicers is over six months.
- **Most modifications result in lower monthly payments for borrowers, but principal reductions, in which the lenders deduct from the original amount borrowed, remain rare.** Given the correlation between negative equity and likelihood of default, the failure to write down principal in connection with loan modifications is a glaring flaw in current efforts.
- **Prime loans are increasingly driving the rising delinquency rates.** The foreclosure problem is broad-based and not isolated to poorly-written or exotic loan products.

The report concluded that these findings forecast a serious possibility of accelerated foreclosures unless lenders make significant changes in their efforts to prevent foreclosure. The report recommended the following changes:

- **Servicers should suspend foreclosure proceedings on any loan involved in the loss-mitigation process.** In some cases, homeowners have lost their homes while being told they are being considered for a loan modification.
- **Loss-mitigation programs must be improved to prioritize principal reduction in areas of significant home price declines.** Loan modification programs that rely on monthly payment reductions alone will have limited success in creating sustainable homeownership in states where a large percentage of mortgage loans are significantly "underwater," when the loan balance is greater than the home's market value.
- **Servicers should pay particular attention to reforming payment-option ARM loans.** If unaddressed, the payment shock on these loans, coupled with the high proportion that are significantly "underwater," will push a significant portion of payment-option ARM loans into foreclosure.
- **The HAMP program must increase transparency and reduce paperwork in order to reach its potential.** While the U.S. Treasury has made positive steps in reducing paperwork burdens, more streamlining is necessary to reduce burdens on both servicers and homeowners.
- **States should consider expanding homeowner counseling programs or implementing temporary foreclosure mediation programs or other such measures.** Given the numbers of homeowners facing foreclosure or likely to face foreclosure in the next 12-24 months, it is likely that many will fall through the cracks of even the best-implemented system for working out mortgage loans.
- **Both servicers and Treasury should provide better options to keep unemployed homeowners in their homes.** Unemployment and loss of income are key catalysts to a mortgage default. While unemployment insurance partially fills a short-term gap in income from job loss, unemployed homeowners face significant hurdles in keeping their homes.

For copies of the reports of the State Foreclosure Prevention Working Group, visit www.illinoisattorneygeneral.gov or www.csbs.org.

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